

Overview

As reported to the Investment and Real Estate Committee on October 14, 2016, this report summarizes Waterfront Toronto's (WT) negotiations with George Brown College (GBC) and provides an overview of their proposal for the Block 3 lands in Dockside. It also provides a description of the recommended key terms for transaction documents, which are anticipated to include an Agreement of Purchase and Sale with the City of Toronto (City) and a Development Agreement with WT, in accordance with prior direction from Toronto City Council.

This report will:

1. update the Board on the ongoing deal negotiations with GBC to acquire Block 3 in Dockside;
2. provide a background on the history of this site and timing working towards the Block 3 land closing; and
3. seek the Committee's approval for the underlying business terms.

As negotiations are ongoing, it is possible that some of the foregoing may change by the time the Committee meets. However, we have agreed to the major terms and City staff is currently writing a Staff Report recommending the sale of these lands under the proposed terms. Management is of the opinion that the Committee and Board input is important at this time.

Introduction

WT, as the City's designated revitalization lead in East Bayfront (EBF), has been working with the City and GBC since 2004 to bring a waterfront campus to EBF. Phase 1 of the campus was built and opened to approximately 5,000 students and faculty in 2012. Since that time, WT and City staff have been moving forward with Phase 2 of the project, another academic building adjacent to the first.

The following report provides background for this site and the waterfront campus and includes the following sections:

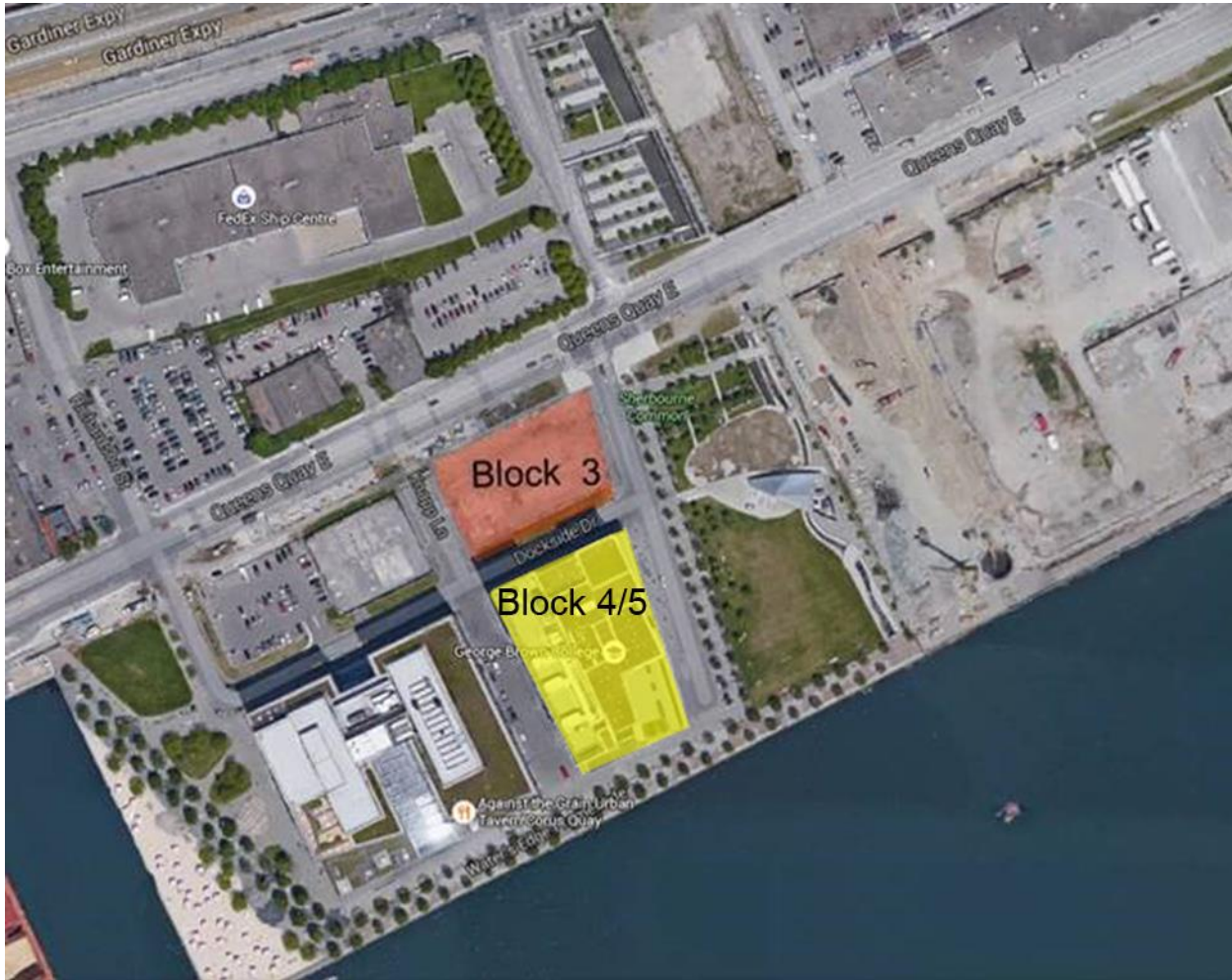
1. Background
2. GBC Proposal
3. Ground Lease vs. Fee-Simple Transfer
4. Proposed Motion

Background

East Bayfront Revitalization Objectives and Initial Council Approval

Since 2004, the establishment of a waterfront institutional campus has been a priority for the City and WT. Between 2004 and 2007 WT took part in extensive discussions with the majority of post-secondary institutions throughout the GTA, with the goal of establishing a post-secondary institution in the waterfront. In December 2008 Council declared Blocks 3, 4, and 5 lands in Dockside surplus (see Figure 1), and in October 2009, Council approved a transaction with GBC for these lands. The Council approval of a transaction with GBC recognized the significance of a waterfront campus to the long term vision for revitalization. Block 3 is a 0.23-hectare parcel located south of Queens Quay and west of Dockside Drive, as shown on Figure 1 below. The GBC development proposal currently consists of up to 16,260 sm (175,000 sf) of institutional and ancillary space.

FIGURE 1



Key terms of the 2008 Council approval included authority for the City to enter into:

- A long term lease (103 years, consisting of initial four year construction period and 99 year lease term) with GBC on Blocks 4 and 5, for the purposes of an academic building, connected concourse and underground parking; and
- An Option Agreement with GBC, for the purposes of a student residence and recreation centre for Block 3. The approved option had a December 31, 2013 expiration with permission (at the City's discretion) for two, one-year extensions. The approved long term lease for Block 3 was to be co-terminus with the lease on Blocks 4 and 5.

The terms of the Council approval for Blocks 4 and 5 reflected the fact that GBC received \$61.5M of Provincial funding and \$30M of Federal Knowledge Infrastructure Program funding.

Option Extensions and Revised Block 3 Objectives

GBC has developed its facility on Blocks 4 and 5, which opened in September 2012. The College has also requested, and received, both of the permitted Option extensions for Block 3. Following discussions with WT regarding the objective of establishing East Bayfront as a hub for innovative, 21st-century employment, at the time of the 2013 extension, GBC provided a letter that indicated a commitment to provide innovation academic space on Block 3 rather than a student residence which has since been delivered in the West Don Lands through the Pan Am Games Athletes' village. It was understood that this change of use from student residence to academic space was preferred by WT, although it would be subject to Council approval. In 2013 GBC also entered into a Letter of Intent with WT, in which GBC committed to providing for the delivery of a childcare facility and a recreation facility on Block 3, provided these could be developed to the City's satisfaction. Since that time, City Parks, Forestry and Recreation have determined that it does not need a recreation centre at the GBC location so this use has been removed from the proposal.

Block 3 Implementation Options and GBC's Offer to Purchase

WT and City staff have had numerous discussions with GBC, exploring options for accelerating delivery of the Block 3 development. The provision of a GBC waterfront campus over all of Blocks 3, 4, and 5 has been a priority for all parties and is consistent with the initial intent for EBF revitalization. GBC has reported that the funding context is now significantly different from what it was at the time of the original 2006 Council approval. GBC has not yet secured senior government funding for construction, as was available for Blocks 4 and 5. In addition, the College is subject to increasing Provincial government scrutiny over contingent liabilities such as periodic rent increases, typically associated with long term ground leases. While this could be dealt with through an up-front lump sum payment, GBC indicated a preference for purchasing Block 3 fee simple for the purposes of an academic facility rather than through a long term ground lease.

The College operates under a Provincial Ministry financial management policy, which includes a set of financial health metrics with associated benchmark requirements. One of the requirements is for colleges to achieve an annual operating surplus of revenue over expenses. If land is purchased, it has no impact on this metric and the College's ability to achieve the benchmark. If land is leased, then the annual lease cost (or annual amortization of a capitalized lease cost) is an added annual operating expense that makes it more difficult for the institution to achieve the required benchmark. This factor is one reason a land purchase is more favourable to the college than a lease.

GBC's final extension of the Option Agreement expired on December 31, 2015. However, all parties (City, WT, and GBC) remained committed to identifying a feasible strategy for facilitating GBC campus expansion on the waterfront. Accordingly, at its meeting of December 9 and 10, 2015 Council approved the following recommendations concerning GBC and Block 3:

- City Council approve the proposed change of use for Block 3 of Dockside in EBF, from a student residence to an academic building and child care facility.
- City Council direct the Deputy City Manager, Cluster B to review the Block 3 proposal by GBC, submitted through WT, and report back to Executive Committee and Council with recommendations on terms for either a long term ground lease or fee simple conveyance.

City Staff and WT have since continued discussions with GBC and WT now recommends proceeding with a fee-simple conveyance to GBC, subject to conditions set out later in the closed session of the meeting.

GBC Proposal

GBC is proposing to develop an academic facility that will represent the expansion of its existing campus on Blocks 4 and 5, and will house academic divisions that are consistent with the objectives for an innovation and technology corridor on the waterfront. The building is currently proposed to accommodate 175,000 square feet of above grade gross floor area, for academic uses. What will exist below grade is still being determined. The building will also include an approximately 8,000 square foot childcare centre to be located on the first, and potentially, second floors.

The following provides background on GBC's request and the rationale for WT's supportive recommendation to the City.

Consistency of GBC Request with the EBF Precinct Plan and Waterfront Revitalization Objectives

WT's EBF Precinct Plan (Precinct Plan) was endorsed by Council in December 2005. The Precinct Plan established a vision for a mixed-use community with up to 12,000 residents and 8,000 employees. The Precinct Plan identifies a number of priority non-residential uses, including employment, retail, cultural, and institutional uses. It also acknowledges WT's ongoing efforts to attract an institutional partner, which demonstrates the longstanding nature of this priority, and the significance of this initiative to the EBF revitalization vision.

In July 2006, Toronto City Council approved the EBF Business and Implementation Plan, which included an EBF Employment Strategy (Employment Strategy). The Employment Strategy established the objective of the EBF as a centre for knowledge-based employment and a driver for economic development. It identified a number of conditions for success from other global precedents at the intersection of real estate development, urban design, technology and social policy. These conditions included the presence of research and development-based industries and educational institutions, including those that support knowledge-based and creative-sector employment. The provision of a range of innovative employment and educational uses was identified as a critical part of an overall strategy for building EBF as an intelligent community.

GBC's current request to develop an academic facility is desirable because:

- The request is consistent with the intent to establish a full campus of institutional uses on the waterfront, contributing to broader economic development objectives; and
- The planned use will advance the Precinct Plan goals of providing a balanced mix of non-residential uses, and establishing a vibrant waterfront. The provision of an academic facility will attract thousands of students and faculty (significantly more than could be accommodated in a student residence), and contribute to year-round activation of the waterfront.

WT's Innovation and Intelligent-Community Objectives

GBC's proposal for Block 3 will significantly advance the innovation and intelligent community objectives for the waterfront. The development of an academic facility with faculties focused on innovation, technology, and related sectors is particularly appropriate for Block 3. Facilitating GBC's request is consistent with the long-term objective of establishing an innovation corridor that includes a mix of uses that is sufficiently robust to support long term economic development objectives, particularly in the areas of education, training, and employment. This is a significantly stronger proposition than the previously approved student residence.

Ground Lease vs. Fee-Simple Transfer

In addition to the vision and principles of the EBF Precinct Plan, the overarching objective for waterfront revitalization is to protect and advance the public interest, particularly on publicly owned land. Key principles for advancing the public interest in the waterfront include:

Public Control of Waterfront Land (“City Lands in City Hands”)

The concept of retaining City ownership of waterfront land was introduced in a 2004 report to Council regarding the Governance Structure for waterfront revitalization. It was repeated in the 2006 Memorandum of Understanding between the City, WT, and the Toronto Economic Development Corporation (EBF MOU). The Governance Structure report states that City land will be developed by way of 99-year ground lease where market conditions permit. The MOU indicates that ground leases will be used for commercial purposes and fee-simple transfer will be permitted when lands are to be used for residential purposes. Institutional uses are not mentioned, however, the MOU is clear that site-specific circumstances will be considered in the case of mixed-use development. Therefore, the need for site-specific consideration of this transaction is acknowledged in the MOU.

Reinvestment of Public Land Proceeds into Waterfront Revitalization

A key component of WT’s business model is the reinvestment of revenues from the disposition of public land into waterfront revitalization initiatives, in accordance with a Long Term Financial Plan (LTP) that is updated annually and endorsed by each level of government. The timely delivery of Block 3 projected revenues is important for maintenance of our LTP objectives.

GBC’s request to purchase Block 3 (rather than lease) is considered consistent with the aforementioned principles for the following reasons:

- GBC is an institutional use, not a private-sector or commercial one. The College is governed by Provincial legislation and as such, a governance structure exists to ensure the College’s activities will continue to serve the public interest. Therefore, a fee-simple sale to GBC is consistent with the objective of maintaining public lands in public ownership. Furthermore, considering GBC is a public/institutional user, a fee-simple transfer to GBC does not set precedent for commercial development on lands to be developed by the private sector.
- Current “market conditions” for GBC include constraints on government funding for construction, and a more restrictive process for obtaining permission to enter into ground leases and other transactions associated with contingent liabilities. Therefore, the context is different from that of the original Council-approved transaction, and consideration of alternatives to a ground lease is appropriate.

The proposed business terms will be discussed in the closed session.